

DeMarche Spreads Analysis Common Stock Style Sectors

January 2016

High growth stocks led value stocks during the past month, quarter and one year. High quality stocks have lagged lower quality stocks over the past quarter, while moderate quality has done well over the past month and year. We expect higher quality stocks with a value tilt to lead stocks in the coming months.

Stock leadership changed hands throughout the year. Retailing stocks performed the best over the past year, earning 20.7%. Software and Services stocks have performed the best over the three month time frame, earning 12.5% and Household and Personal Products performed the best over the past month, earning 3.8%. Our expectation is that Telecom Services and Media stocks will outperform other industries in the coming months. The worst performing industry for the year was Energy, down 24% for the year and 9.7% for the quarter. The worst performing industry for the past month was Consumer Durables, down 1.9%

The smallest stocks, in terms of market cap, continue to struggle during the past month and are down 33.5% for the trailing twelve month time period. Mid cap stocks have performed the best over the one and three month time period. Over the past year, the largest cap stocks have performed the best. We expect large cap stocks to continue their dominance in the coming months.

James Dykstal, CFA
Portfolio Manager
(913) 384-4994

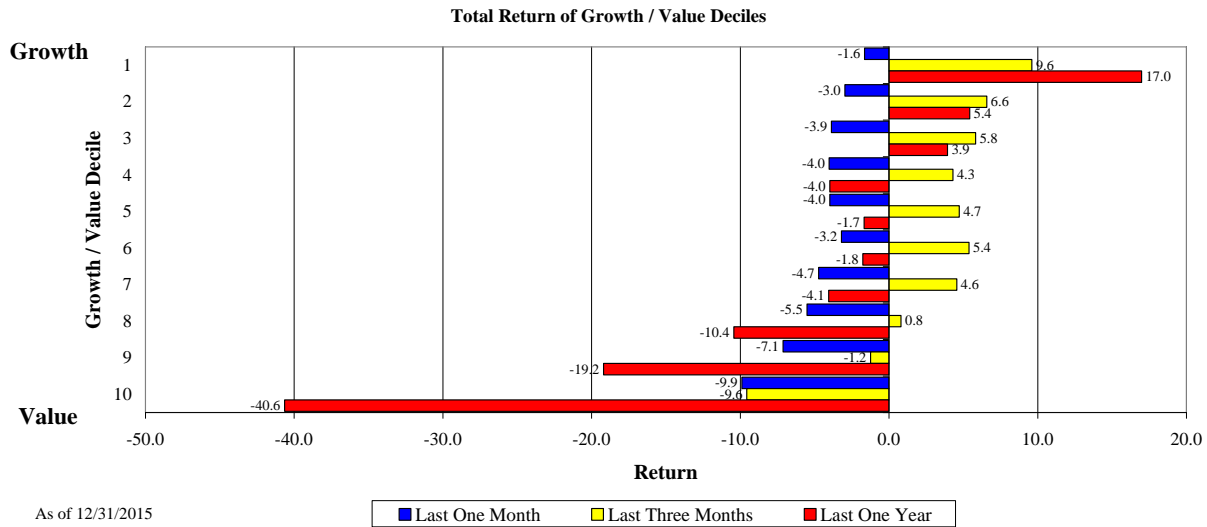
The DeMarche Spreads Analysis explains and predicts style and market factor leadership. We have created a proprietary matrix of monthly expected return premiums to the risk-free rate (30-day T-Bills). Our latest research utilizes this matrix to look at relationships between dozens of market-driving factors.

The data for stocks (not shown) allows us to share with you some of the most interesting “spread analyses” in the industry. In addition, we provide custom analytic services to meet your company’s unique strategic needs. A partial list of factors whose expected return premiums we’ve collected is located at the end of this publication.

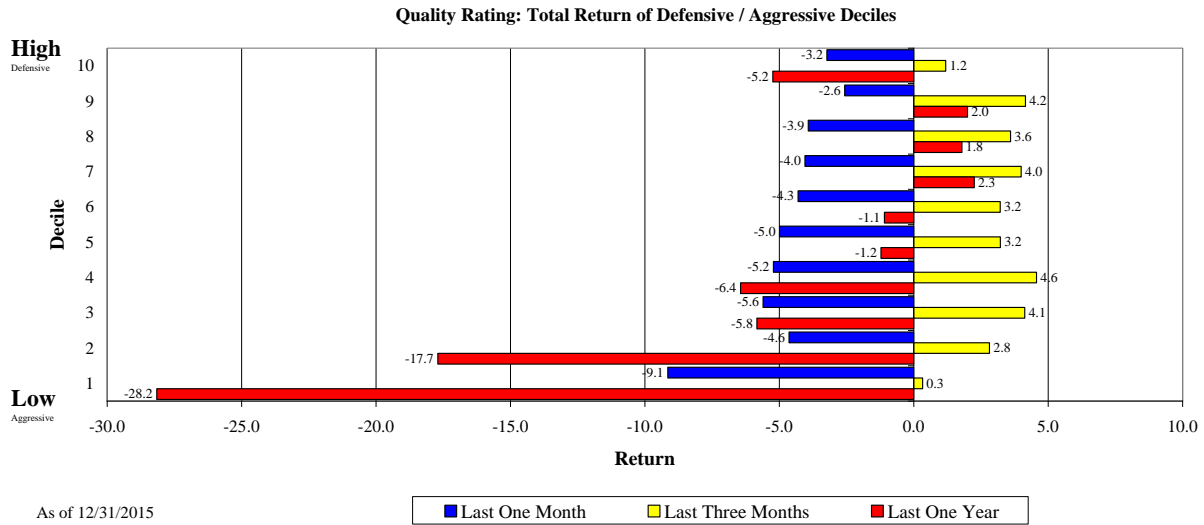
DeMarche Associates, Inc.
6700 Antioch Road, Antioch Plaza, Suite 420, Merriam, KS 66204
Fax: 913-981-1382 E-Mail: cschell@demarche.com

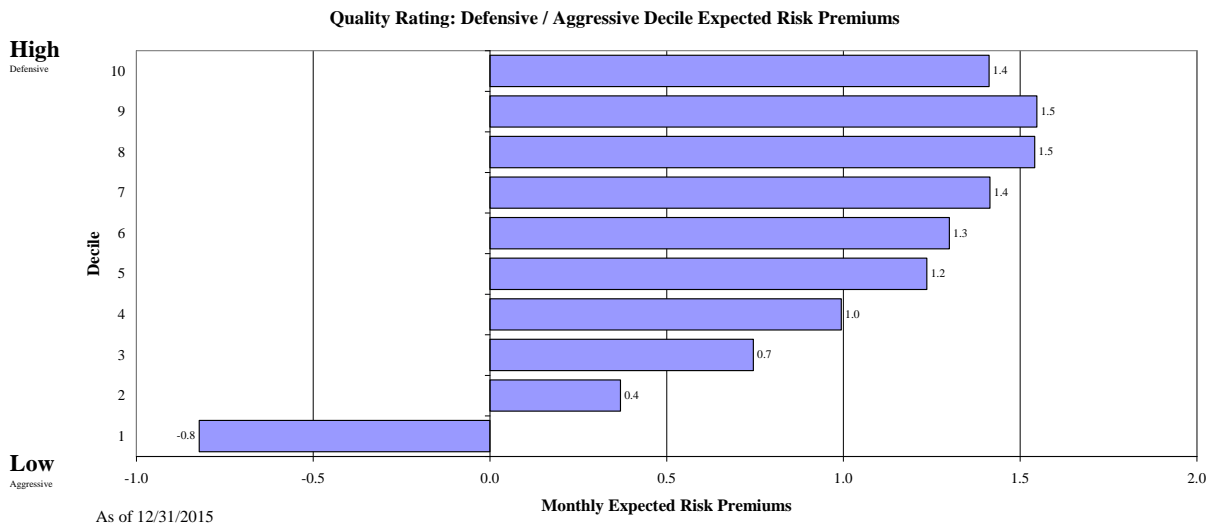
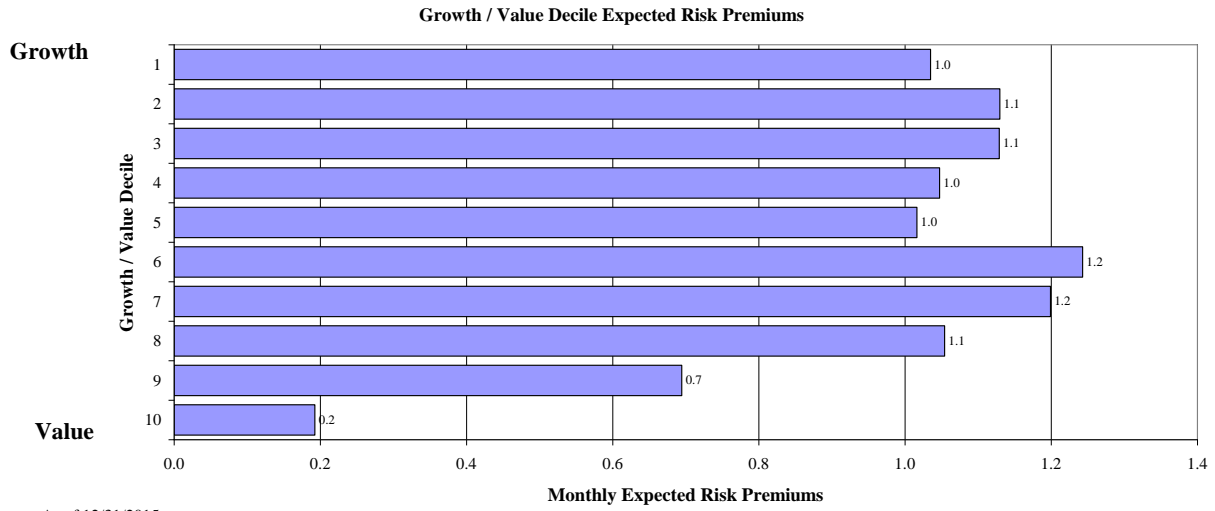
Trailing Total Return by Style

*All returns in the Spreads Analysis are equal weighted (DeMarche 3000).

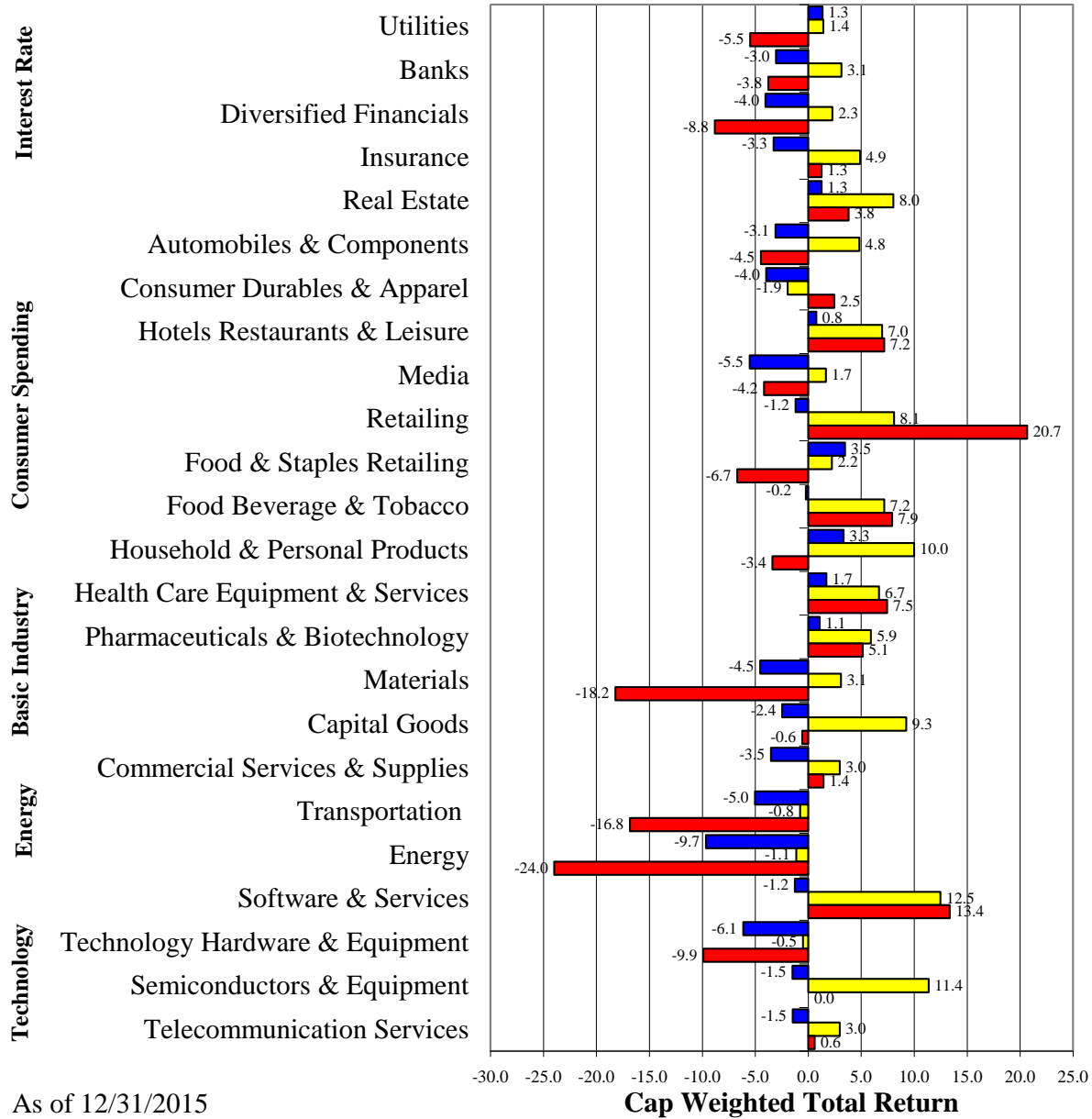


Spreads by Style





Total Return of Industries

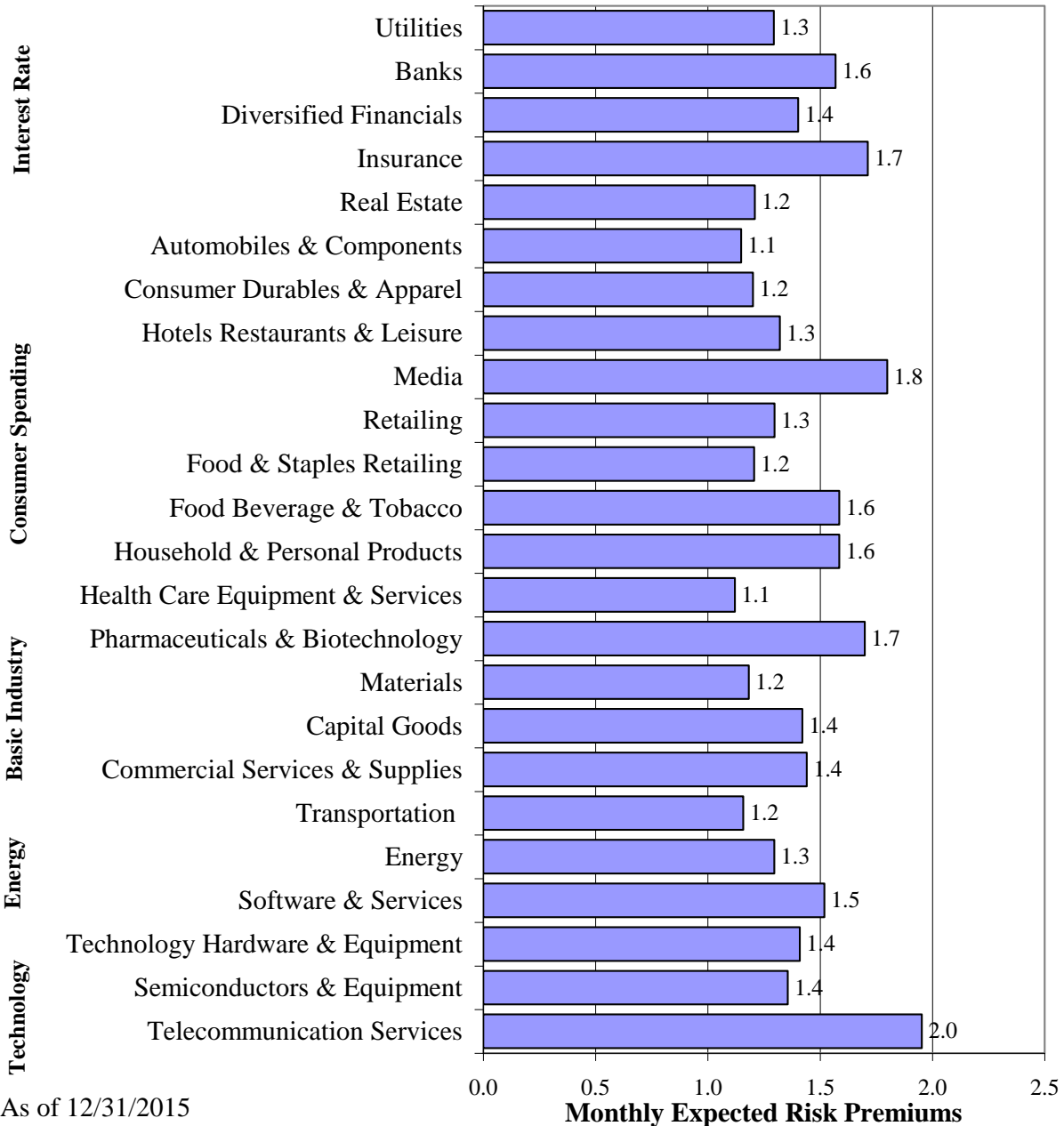


As of 12/31/2015

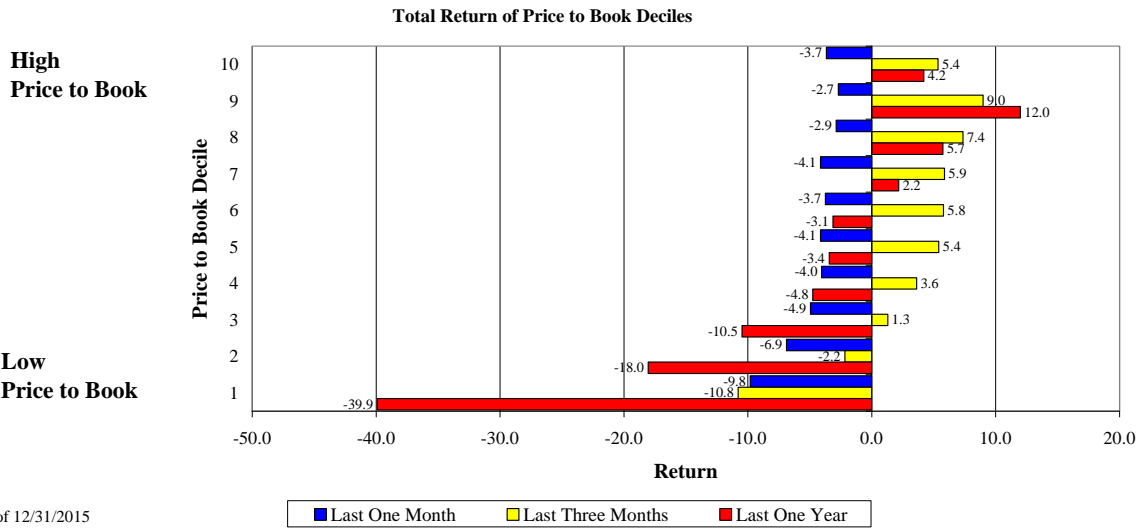
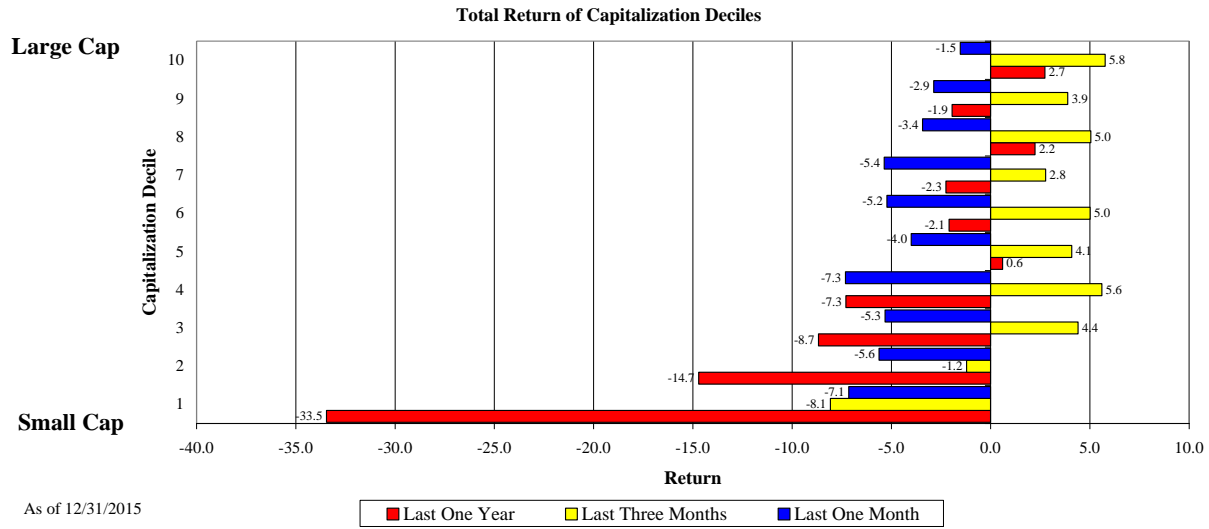


Spreads By Industry

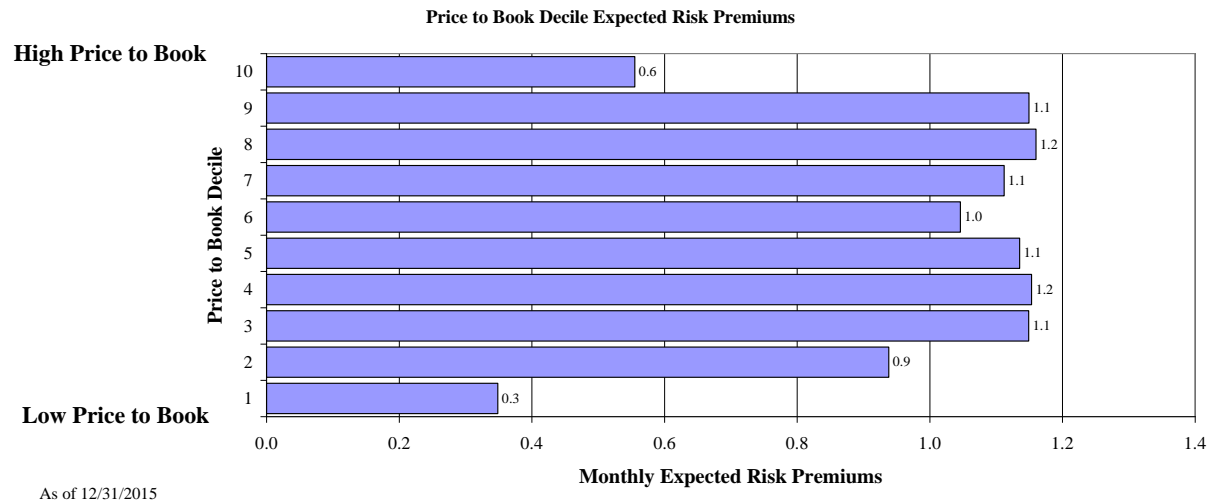
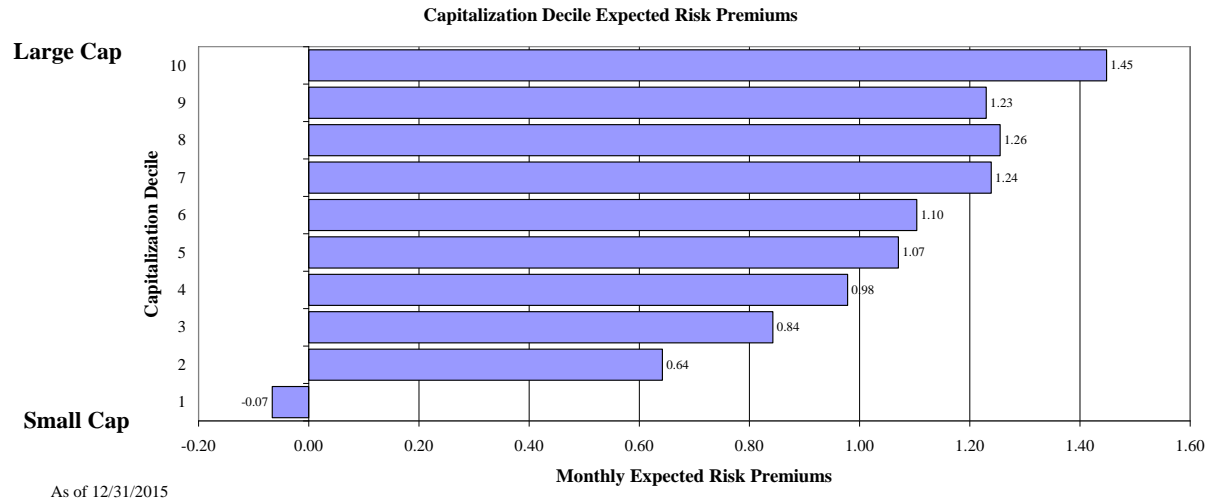
Industry Expected Risk Premiums



Trailing Total Return by Factor



Spreads by Factor

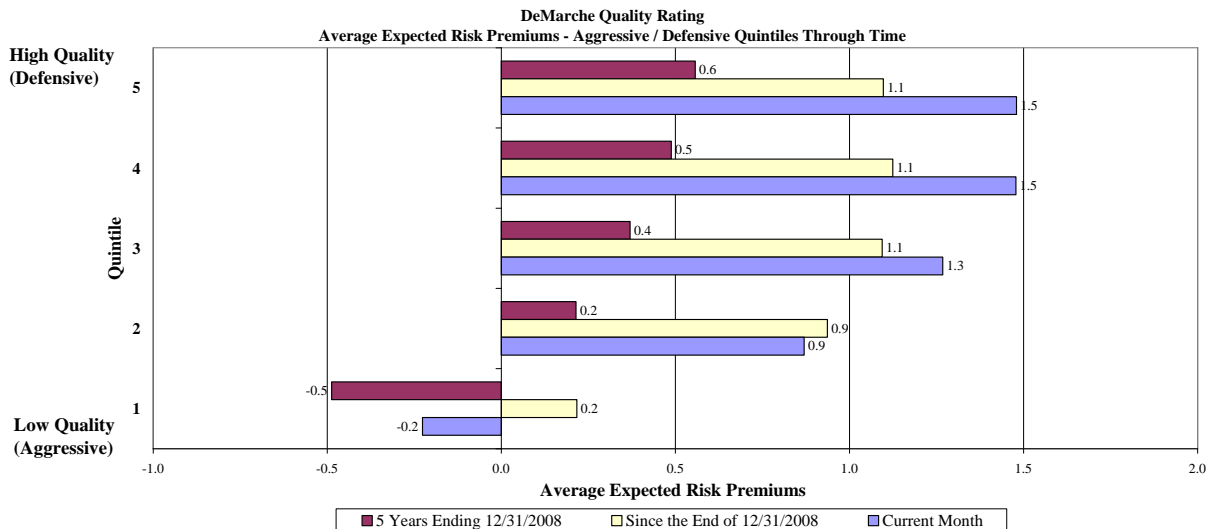
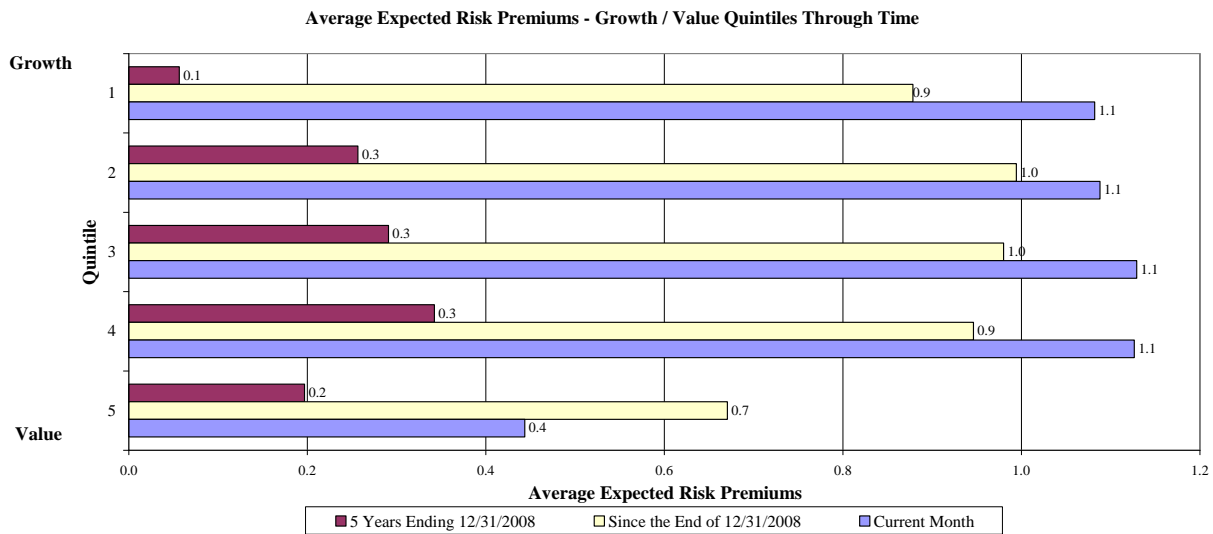


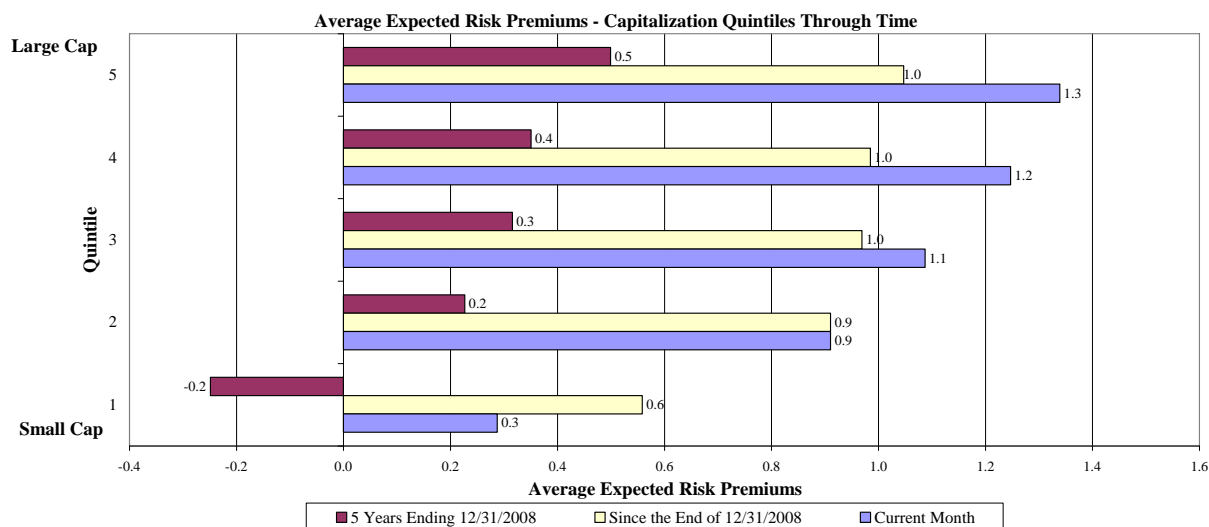
Appendix

Spread Analysis

DeMarche’s Factor Model estimates expected return risk premiums to the risk-free rate for thousands of undervalued stocks. We have monthly data stored from the late 1970s. Calculating the “spread” of one stock or sector to “the market,” in this case the DeMarche 3000, has allowed us to build a historical database of spreads.

The “spread” between any one sector and the market should be interpreted carefully. The period since the 1920s is a period in stock market history with a modest up-market bias, because of the “bubble” in the late 1990s, in spite of the corrective bear market post 2000. For instance, until recently our lower quality deciles had a negative spread to the market since the late 1970s. In our language, that means the Stock Market started overpricing small cap stocks at some point in the late 1970s and 1980s and on average, it was so during much of the 1990s. The bear market that followed corrected to some degree the overpricing of the lower quality rated companies.





Glossary

Factor Model

Hundreds of variables or factors affect a company’s stock price including inflation, interest rates, company size, leverage, earnings, etc. Each factor impacts individual industries and companies differently. A factor model identifies those variables that have statistically significant power to predict or explain changes in stock prices. Factor models can capture market inefficiencies, use past observations to project the future, and provide quantitative valuations.

DeMarche Factor Model

The DeMarche Factor Model has identified 55 factors, including industry, that when combined have significant explanatory or predictive power. This model was developed in 1994 by constructing a database covering more than 20 years of monthly information. Using cross-sectional and historical regressions, it tests hundreds of factors of various types on the 3000 most liquid U.S. stocks.

A set of weighted factors indicates the relative growth or value orientation of a company. A different set of weighted factors is used to determine relative aggressiveness or defensiveness. Every stock in the DeMarche Universe of the 3000 most liquid companies is divided into groups based on the total of the value of the weighted factors.

DeMarche Style Rating

Value Stocks

DeMarche uses nine factors to rate a stock as growth or value. Value companies in the DeMarche system are those securities considered “cheap” as measured by such different valuation techniques as dividend discount rate models, price-to-earnings, price-to-book value, price-to-sales, or price-to-cash flow ratios. Value securities generally have P/Es and betas lower than the market, and yields greater than the market.

DeMarche Quality Rating

DeMarche uses 11 factors to rate a stock as aggressive or defensive. These ratings replace and enhance market capitalization as a primary diagnostic tool.

Aggressive Stocks

Though categorizing a stock as aggressive is not based only on cap size, smaller stocks tend to be more aggressive than large cap stocks. An aggressive stock may include a small company with high market risk, wide trading ranges, low dividend yields and payout ratios, and thin profit margins.

Defensive Stocks

Expected Risk Premium

DeMarche's Factor Model makes a forecast versus the 30-day Treasury Bill. That is, 0.50 equates with a 50 basis point monthly premium to the current 30-day Treasury Bill rate. The Model was tested for the period 1978-94 and has been run monthly since then. A number of proof statements showing the accuracy of the model are available, including one for general access on our website, www.demarche.com under the homepage Common Stock Rating Service.

Disclosure Statement

DeMarche Associates is an independent investment consulting firm working with corporations, public entities, non-profit organizations and investment managers. DeMarche makes recommendations on individual stocks, groups of stocks, investment managers and groups of investment managers. The relationships that we have with corporations and investment managers in no way influence our stock ratings or manager ratings.

No fees are paid to DeMarche by corporations to provide a favorable stock rating or by managers to be a member of our manager universe or to be included in a manager search. Copies of our ADV Part II are available for more detailed disclosure. Reference our website, www.demarche.com, for more information regarding DeMarche.

Defensive stocks tend to be large companies that have low market risk and narrow trading ranges. These stocks also tend to be companies with high dividends and payout ratios.

Industry Rating

DeMarche uses S&P Industry Group designations. S&P has 11 Economic Sectors, 24 Industry Groups, 69 Industries and 145 Sub-Industries.